



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	SB0152	<b>Title:</b>	Education funding including early childhood development for 5 year olds
<b>Primary Sponsor:</b>	Ryan, Don	<b>Status:</b>	As Amended in House Committee

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Expenditures:</b>				
General Fund (01)	\$81,607,694	\$107,809,277	\$101,173,823	\$89,293,499
State Special (02)	\$0	\$0	\$0	\$0
<b>Revenues:</b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special (02)	\$17,581,717	\$23,174,302	\$11,603,981	\$0
<b>Net Impact to General Fund Balance:</b>	<u>(\$81,607,694)</u>	<u>(\$107,809,277)</u>	<u>(\$101,173,823)</u>	<u>(\$89,293,499)</u>

**Description of Fiscal Impact:** SB 152 increases ANB by nearly 3,300 statewide by funding full-time early childhood development programs for five year olds, increases state support for school district general fund budgets by \$147.6 million in the 2009 biennium, and creates a school facility account to accumulate \$177.8 million to fund school facilities in the 2011 biennium following the completion of the school facility condition inventory.

### FISCAL ANALYSIS

#### Assumptions:

#### Office of Public Instruction

- Under current law, the average number belonging used to determine the general fund budgets for public schools will be as follows:

	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>K-6 ANB</b>	72,763	72,332	72,171	72,094	73,462
<b>7-8 ANB</b>	24,643	24,111	23,148	22,603	22,052
<b>9-12 ANB</b>	<u>49,613</u>	<u>49,231</u>	<u>48,409</u>	<u>47,521</u>	<u>46,417</u>
<b>Total ANB</b>	147,019	145,674	143,728	142,218	141,931

2. The maximum potential elementary average number belonging (student count) used to calculate school districts' general fund budgets will increase as a result of SB 152 as indicated in the chart below.

<b>Budgeted ANB</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
EL ANB (Current Law)	72,332	72,171	72,094	73,462
Maximum EL ANB (SB 152)	<u>75,627</u>	<u>75,543</u>	<u>78,000</u>	<u>79,481</u>
Increase	3,295	4,372	5,906	6,019

3. Per SB 152 basic and per ANB entitlements will be set as follows:

<b>Entitlement</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Elementary Basic</b>	\$20,718	\$45,000	\$46,350	\$46,350	\$46,350
<b>Middle School Basic</b>	---	\$85,000	\$87,550	\$87,550	\$87,550
<b>High School Basic</b>	\$230,199	\$270,000	\$278,100	\$278,100	\$278,100
<b>Elementary Per ANB</b>	\$4,456	\$4,579	\$4,716	\$4,716	\$4,716
<b>High School Per ANB</b>	\$5,704	\$5,861	\$6,037	\$6,037	\$6,037

4. Present law (20-9-326, MCA) requires the Governor to include inflation adjustments for the entitlements in the recommendations presented to the legislature. The expenditure prior to adding these present law adjustments result in the following:

	<b>FY 2008</b>	<b>FY 2009</b>
<b>Direct State Aid</b>	\$347.4 million	\$342.4 million
<b>Guaranteed Tax Base Aid</b>	\$110.4 million	\$108.8 million
<b>County Retirement GTB</b>	\$24.8 million	\$25.6 million

5. The present law adjustment does not include inflationary increases for the educator payment, the at-risk student payment, the Indian education for all payment, or the American Indian achievement gap payment (20-9-327 through 20-9-330, MCA). The payments will total \$35.9 million in each year of the 2009 biennium.
6. The state special education appropriation is not changed in SB 152. The special education payment remains at \$39.35 million per year.
7. The new middle school entitlement of \$85,000, defined in SB 152 for the school funding formula replaces the current pro-ratio between the elementary and high school basic entitlement. This will be effective for all elementary programs, whether or not they adopt full-time early childhood development programs.
8. SB 152 provides full-time ANB funding for school districts that enroll students in a full-time early childhood development program. For the purpose of preparing this cost estimate, it is assumed that 80% of all 5 year old students will be enrolled in full-time early childhood development programs in FY 2008, 90% in FY 2009, and 100% in FY 2010 and beyond. The elementary average number belonging (student count) used to calculate school districts' general fund budgets will increase as a result of SB 152 as indicated in the chart below.

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Maximum increase	5,545	5,583	5,880	5,944
Percent enrolled full-time	80%	90%	100%	100%
ANB net increase	4,436	5,025	5,880	5,944

9. Offering full-time early childhood development programs in a school district is the choice of the local school board.

10. The Indian Education for All payment of \$20.40/ANB will be paid on the additional ANB increase due to implementation of full-time early childhood development programs.

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Percentage Implementation	80%	90%	100%	100%
Indian Education for All Payment	\$67,320	\$89,352	\$120,586	\$122,892

11. An additional 1.0 FTE teacher will be added for every 12.6 additional ANB enrolled in full-time early childhood development programs. Statewide 296.4 FTE additional teachers will be hired to teach full-time early childhood development programs in FY 2008, 343.8 in FY 2009, 415.7 in FY 2010, and 421.0 in FY 2011. The educator payment in present law is \$2,000 per FTE and SB 152 increases that payment to \$2,100 per educator in FY 2008 and \$2,163 per educator in FY 2009.

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
FTE (100%)	370.5	382.0	415.7	421.0
Per Educator	\$2,100	\$2,163	\$2,163	\$2,163
Percentage Implementation	80%	90%	100%	100%
Additional Educator Payment	\$622,440	\$743,639	\$899,159	\$910,623

12. SB 152 creates a per-classroom payment of \$2,100 in FY 2008 and \$2,163 in FY 2009. The number of classroom units for a school district is determined by the student-teacher ratio for the school size category.
13. The maximum Direct State Aid, GTB, Retirement, and other components of the school funding formula are proportionally reduced from the maximum levels by the percentages shown in assumption 8.
14. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates and estimated property tax values.
15. The increased retirement expense is estimated by determining the amount of increase in the BASE budget, multiplying times the percentage of the general fund budget that is typically salaries (75% salaries) to get the increased salaries associated with SB 152.
16. Estimated benefit rate is 15% based upon FY 2006 employer contribution rates:

	<b>Certified Staff</b>	<b>Classified Staff</b>
TRS	7.47%	
PERS		6.90%
FICA	6.20%	6.20%
Medicare	1.45%	1.45%
Unemployment	0.02%	0.02%
<b>Totals</b>	<b>15.14%</b>	<b>14.57%</b>

17. Based on budget data from FY 2006, on the marginal, the state pays retirement guaranteed tax base aid (GTB) of approximately 28% of countywide retirement tax levy.
18. Estimated cost to the state and county:

<b>Fiscal Year</b>	<b>Estimated Additional Salaries</b>	<b>Estimated Benefit Rate</b>	<b>Retirement Cost</b>	<b>State Share</b>	<b>County Share</b>
2008	\$66,229,215	15%	\$9,934,382	\$2,781,627	\$7,152,755
2009	\$69,840,724	15%	\$10,476,109	\$2,933,310	\$7,542,798
2010	\$56,550,768	15%	\$8,482,615	\$2,375,132	\$6,107,483
2011	\$41,613,723	15%	\$6,242,058	\$1,747,776	\$4,494,282

19. Consistent with HJR2 revenue estimates, the statewide taxable valuations will increase by 3.18 percent in FY 2008 and 3.22 percent in FY 2009 and beyond.

### **School Facility Account**

20. The common school trust receives revenues generated from mineral royalties due to SB 495 (2001 Legislative Session). The royalties were purchased in 2001 with a loan from the permanent coal trust. The \$46 million loan purchased \$138.9 million in royalties and was expected to take 30 years to repay. Mineral royalty revenue has been much higher than expected, and the principle and interest of the loan are expected to be paid off in FY 2008 and the common school trust will continue to collect mineral royalties until the full \$138.9 million is received. Current estimates suggest that the guarantee account will receive \$52 million after the loan is paid off which will occur by the end of FY 2010. When all mineral production rights that were sold have been paid for, the revenue will be allocated to the inviolate common school permanent fund.
21. As a result of this legislation, one-time mineral royalty revenue monies in assumption 19 and shown in the table below will no longer be deposited in the guarantee account. Instead, revenue will be deposited in a state special revenue school facility improvement account.

<b>SB 152 and Facility Improvement Account</b>				
<b>(\$ millions)</b>				
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Mineral Royalty Revenue	\$29.323	\$27.363	\$26.526	\$26.406
<b>Current Law</b>				
Mineral Royalties to Coal Loan	\$7.492	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$4.249	\$4.189	\$4.100	\$4.302
<b>Mineral Royalties to Guarantee Account</b>	\$17.582	\$23.174	\$11.604	\$0.000
Royalties to Permanent Fund	\$0.000	\$0.000	\$10.822	\$22.104
<b>Total</b>	<u>\$29.323</u>	<u>\$27.363</u>	<u>\$26.526</u>	<u>\$26.406</u>
<b>SB 152</b>				
Mineral Royalties to Coal Loan	\$7.492	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$4.249	\$4.189	\$4.100	\$4.302
<b>Mineral Royalties to Guarantee Account</b>	\$0.000	\$0.000	\$0.000	\$0.000
<b>Mineral Royalties to Facility Improvement</b>	\$17.582	\$23.174	\$11.604	\$0.000
Royalties to Permanent Fund	\$0.000	\$0.000	\$10.822	\$22.104
<b>Total</b>	<u>\$29.323</u>	<u>\$27.363</u>	<u>\$26.526</u>	<u>\$26.406</u>
<b>Change from Current Law to SB 152</b>				
<b>Mineral Royalties to Guarantee Account</b>	(\$17.582)	(\$23.174)	(\$11.604)	\$0.000
<b>Mineral Royalties to Facility Improvement</b>	\$17.582	\$23.174	\$11.604	\$0.000

22. Total school BASE aid expenditures to school districts do not change as a result of this provision.
23. There is no appropriation in SB 152 from the school facility fund. The state general fund appropriation for school district BASE aid will need to increase in an amount equivalent to the decrease in the revenue available in the guarantee account (\$17.582 million in FY 2008, \$23.174 million in FY 2009, and \$11.604 million in FY 2010).
24. No change in school funding will occur until the school facility funds are appropriated in a subsequent legislative session.

25. This account would create funding to be available for school districts' facilities needs to be determined at the end of the facilities study commissioned by the 2005 Special Legislative Session to be completed by July 2008. The total funds available in the 2011 biennium will be \$52.360 million.
26. Section 38 adds a contingent voidness clause if HB 809 is not passed and approved, then Sections 8 and 9 are void.

**Montana School for the Deaf and Blind, Corrections, and Department of Military Affairs**

27. SB 152 includes the educator component for the Montana Youth Challenge Program. This organization has not previously been included in this school funding component. The Montana Youth Challenge Program has 5.0 FTE qualified for this payment.
28. The educator component would facilitate increases each year for the Montana School for the Deaf and Blind and for Corrections at Pine Hills and Riverside as follows:

		<b>FY 2008 Increased Educator</b>	<b>FY 2009 Increased Educator</b>
	<b>FTE</b>	<b>Payment</b>	<b>Payment</b>
		<b>(Including applicable Retirement)</b>	<b>(Including applicable Retirement)</b>
MSDB	36.25	\$4,386	\$7,050
Corrections	20.21	\$2,445	\$3,986
MT Youth Challenge	5.0	\$10,500	\$10,815

**Department of Revenue**

29. The loan repayment assistance received by a qualified educator under this program would be considered taxable income for the Montana individual income tax.
30. Revenue distributed to school districts under the new school funding formula in SB 152 will also impact income taxes through increased salaries paid.
31. Accurate determination of the impact to income tax amounts cannot be determined due to the array of changes and school district choices for budgets.

**Montana University System**

**Educator Loan Forgiveness Program**

32. In academic year 2005, MUS had 476 students graduate with teaching certificates and 358 of the graduates had loans averaging \$22,037.
33. This is a new program so it is difficult to predict how many teachers might apply and qualify. The assumption is that the program would be distributed as follows:

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Teachers served	201	434	655	0
Total loan repayment	\$301,500	\$651,000	\$982,500	\$0
1.0 administration FTE	<u>\$47,640</u>	<u>\$49,070</u>	<u>\$50,297</u>	<u>\$0</u>
Total program cost	<u><u>\$349,147</u></u>	<u><u>\$700,070</u></u>	<u><u>\$1,032,797</u></u>	<u><u>\$0</u></u>

34. SB 152 restricts the annual loan repayment assistance provided to teachers and certified personnel to be \$1,500 per year up to a maximum of four years per qualified personnel.
35. There will be additional costs associated with administering this new program. 1.00 FTE is requested to manage the program. (salary & benefits equal \$47,640) The additional administrative duties result primarily from Section 5 of the bill which requires teachers be employed for four years following a year in which the loan repayment assistance was granted. If a recipient ceases to remain in a teaching position in any of the schools identified a critical shortage areas, then teachers must repay the amount of loan assistance to the board of regents.

- 36. A 3.0% inflation factor has been applied to FY 2009 and a 2.5% per year inflation factor has been applied to FY 2010 and FY 2011 for personal services and operating expenses.
- 37. SB 152, Section 41 sets a termination of June 30, 2010, for this program.
- 38. Decision package NP 2063 funds this program in the executive budget contingent on passage of this decision package by the legislature.

**Governor's Postsecondary Scholarship Program**

- 39. SB 152 does not require additional expenditure for this program so no costs are shown in the fiscal note. However, the executive budget contains an additional \$750,000 for program expansion.
  
- 40. Section 38 adds a contingent voidness clause. HB 678 was tabled in committee; therefore, under this section SB 152 is also void.
- 41. Section 38 adds a contingent voidness clause. If this act and HB 732, the Teacher Housing Incentive Program bill sponsored by Representative Veronica Small-Eastman are not passed and approved, then both are void.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Local Assistance (Direct State Aid)	\$30,178,966	\$43,899,020	\$47,055,236	\$47,599,030
Local Assistance (Guaranteed Tax Base Aid)	\$10,623,514	\$15,722,487	\$16,915,365	\$17,071,098
Local Assistance (Indian Education for All)	\$67,320	\$89,352	\$120,352	\$122,892
Local Assistance (Per Educator)	\$1,854,356	\$2,751,662	\$2,907,182	\$2,918,646
Local Assistance (Per Classroom)	\$18,647,370	\$19,090,205	\$19,082,202	\$19,048,243
Local Assistance (Retirement)	\$2,287,980	\$2,360,228	\$2,434,757	\$2,511,639
Personal Services (MSDB, Corrections, Military Affairs)	\$17,331	\$21,951	\$21,951	\$21,951
Personal Services (Teacher Loan Repayment)	\$47,640	\$49,070	\$50,297	\$0
Teacher Loan Repayment Grants	\$301,500	\$651,000	\$982,500	\$0
Transfer to Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0
<b>TOTAL</b>	<b>\$81,607,694</b>	<b>\$107,809,277</b>	<b>\$101,173,823</b>	<b>\$89,293,499</b>

**Funding of Expenditures:**

General Fund (01) -Montana Univ System	\$349,140	\$700,070	\$1,032,797	\$0
General Fund (01) -Distribution to Schools	\$63,659,506	\$83,912,954	\$88,515,094	\$89,271,548
General Fund (01) -Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0
General Fund (01) - (MSDB, Corrections, Military Affairs)	\$17,331	\$21,951	\$21,951	\$21,951
State Special (02) -Guarantee Account	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Expenditures</b>	<b>\$81,607,694</b>	<b>\$107,809,277</b>	<b>\$101,173,823</b>	<b>\$89,293,499</b>

**Revenues:**

State Special (02) -Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0
<b>TOTAL Revenues</b>	<b>\$17,581,717</b>	<b>\$23,174,302</b>	<b>\$11,603,981</b>	<b>\$0</b>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$81,607,694)	(\$107,809,277)	(\$101,173,823)	(\$89,293,499)
State Special (02)	\$17,581,717	\$23,174,302	\$11,603,981	\$0

**Effect on County or Other Local Revenues or Expenditures:****Office of Public Instruction**

1. The cost of basic entitlement and per ANB funding is shared by the state and local taxpayers.  
Entitlements increase in SB 152 and a district's ANB increases with the implementation of full-time early childhood development programs, therefore, the BASE budget and the maximum general fund budget will also increase. Statewide, the local property taxes to fund the BASE budget will increase by \$12.5 million in FY 2008, \$17.8 million in FY 2009, \$19.1 million in FY 2010, and \$19.4 million in FY 2011.
2. In districts that have already implemented full-time early childhood development programs, the new state funding will be available to reduce local taxes, fund other priorities, or augment the existing early childhood development programs program.
3. Tax increases to fund the over-BASE portion of full-time early childhood development programs must be approved by the voters and are unknown.
4. The per-classroom payment and the per-educator payment are 100% state funded and will not result in an increase in local property taxes.

**Long-Range Impacts:****Office of Public Instruction**

SB 123 allows a district to add the to the district's adopted general fund budget for the previous year an amount equal to one-half of the early childhood development programs enrollment in the previous year times the sum of the maximum elementary per ANB rate plus the Indian education for all payment for an ANB for the previous year. This would potentially allow a district to adopt a budget over the over-maximum budget previously adopted. This may continue unequalized budgets that would have otherwise been equalized by this increase in ANB. The 1989 Supreme Court order required the state to equalize school district budgets.

**Department of Revenue**

1. Under the IRS codes, certain payments for loan forgiveness are not considered taxable to the person receiving the payment. However, it is not clear whether or not the payments under the loan forgiveness program in this bill qualify for this treatment.
2. While current Montana law does not provide an exclusion for loan repayment assistance for qualified personnel, 15-30-111, MCA, could be amended to provide the same loan repayment exclusion provided to health care professionals.

**Technical Notes:**

1. Section 38 adds a contingent voidness clause. HB 678 was tabled in committee; therefore, under this section SB 152 is also void.
2. Section 38 adds a contingent voidness clause. If this act and HB 732, the Teacher Housing Incentive Program bill sponsored by Representative Veronica Small-Eastman are not passed and approved, then both are void.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*